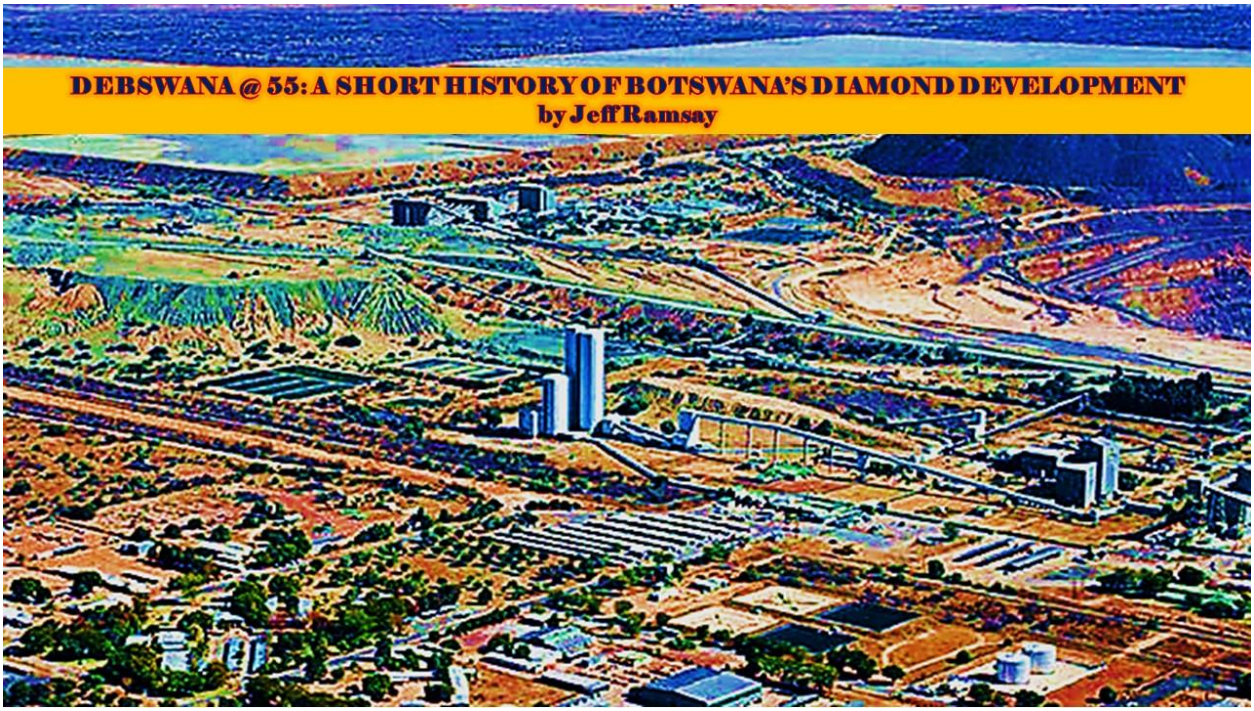

DEBSWANA @ 55: A SHORT HISTORY OF BOTSWANA'S DIAMOND DEVELOPMENT by Jeff Ramsay*

Introduction

In 2006, this author found himself in Havana as part of a Botswana delegation invited by the Cubans to make logistical preparations for the 14th Summit of the Non-Aligned Movement. During the preparatory meetings, the delegation had the pleasure of interacting with our counterparts from Bolivia, who, given alphabetic seating, sat next to us. Coming from a mineral-rich but historically underdeveloped nation that had in 2005 elected a reformist government, the Bolivians were eager to know how our country had benefited from its mineral wealth. In terms of extracting value for public finance, my response to their enquiry focused on three points:

- The Government of Botswana's decision at independence to legally ensure that the nation's natural resources were entrusted to the state,
- Our consequent mining policies over the years, which were adapted to the changing challenges and opportunities of global markets through strategic partnerships and, in particular,

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- Our evolving collaboration with De Beers through Debswana, which had been instrumental in the management of our diamond wealth.

After some discussion, the Bolivians seemed impressed with my “diamonds for development” presentation. Nevertheless, they were still incredulous that we had been able to implement our policy framework, given the potential domestic and international challenges to such an approach. How were we able to do it? They still wondered.

The deeper truth is that Botswana's progress was neither easy nor preordained. At independence in 1966, we were one of the worlds most impoverished and, in terms of both human and physical infrastructure, least developed societies. The journey towards becoming an Upper Middle-Income society was fraught with challenges, including the need to build robust institutions, manage resource wealth effectively, and navigate global economic shifts.

The whole story of diamonds and Debswana's role in driving Botswana's post-independence ascent into an Upper Middle-Income society, boosted by high Government expenditure on Public Health, Human Resource Development, and Social Welfare, is worthy of a more detailed publication. The following text is merely an outline of the historical roots of how our country emerged as a leading player in the global diamond supply chain.

Early Mining in Botswana

Mining in Botswana has a long history, with the extraction of minerals such as specularite, limonite, and graphite dating back to around 20,000 years ago. Iron and copper mining and smelting emerged in eastern Botswana from around the year 800. Gold mining in Northeast Botswana has been ongoing since the 1200s.

In 1867, Europeans discovered remains of indigenous mining in the Northeast, leading to a brief gold rush between 1869 and 1872. Small-scale gold mining resumed in the region in 1881, leading to the establishment of Francistown in 1897.

From 1885, the British administered Botswana as the Bechuanaland Protectorate. Throughout the colonial era, various dikgosi demonstrated remarkable resilience in defending their right to grant mineral concessions by upholding the legal claims to be the “sovereigns of the soil."

Their unwavering determination secured tribal ownership of the natural resources in their reserves, which proved to be an essential precedent for post-colonial policy.

By the late 19th century, there were rumours of mineral wealth, including diamonds, in the Protectorate. Various interests negotiated mining concessions from local dikgosi. Among these was the British West Charterland Company, which had acquired mining rights from the Batawana. The company was eager to prospect for diamonds and other minerals in the Boteti region in 1898-99 but abandoned the idea when the area was demarcated as part of the Bangwato Reserve.

Formation of De Beers

Until the late 19th century, diamonds were a globally scarce commodity. However, the appearance in 1866 of a large diamond led to the unearthing of concentrated diamond deposits in the form of diamondiferous kimberlite near the Orange River in South Africa. The largest concentration of deposits in what quickly became known as the Diamond Fields was at Kimberley, where the discovery of an 83.5-carat stone named the 'Star of South' Africa in 1869 spawned global interest.
By 1871, the influx of diamond miners led to the excavation of two large open-pit mines: the Big Hole at Kimberly and the second large hole at De Beers farm. A legacy of the unprecedented nature of the finds in the area is the geological label "kimberlite", which was coined in tribute to the place of its world-shaking discovery.

At the time, the wealth of the Diamond Fields was understood to be a threat, as well as an opportunity, to established diamond producers who recognised that the release of a surplus of stones in the market would reduce the luxury appeal and corresponding value of their gems. In 1888, several leading suppliers, led by Cecil Rhodes and Barney Barnato, came together to incorporate De Beers Consolidated Mines as a means to secure high market prices for their diamonds; the company being named after the De Beers mine.

From its inception, De Beers successfully manipulated the worldwide supply of diamonds by regulating mine output. In 1890, it sold its diamonds exclusively through its London Diamond Syndicate, later renamed the Central Selling Organisation (CSO). By the beginning of the 20th century, De Beers operated as a de facto cartel, controlling the marketing of between 80 and 90 per cent of the world's diamonds.

Searching for Diamonds in Botswana

During the 1920s, the attention of the British Protectorate administration was drawn to allegations that the Bakwena Kgosi Sebele II was selling diamonds. One intelligence report alleged that the Kgosi had a jar full of rough stones in his office, which he discretely offered for purchase to visitors. However, official interest in the matter faded when suspicions that he was acquiring stones from Bakwena working in the South African mines proved unfounded. To the extent that small quantities of diamonds were passing through Molepolole at the time, they probably emanated from the Kalahari interior. At the time, Illicit Diamond Buying (IDB), which would dilute DeBeers's market control, was a significant law enforcement concern in the region.

Why did such random reports not arouse the interest of mining companies during the colonial era? The simple answer is that they did. For decades, De Beers and other companies jealously guarded their otherwise unexploited mineral rights within the Bechuanaland Protectorate. However, before the 1930s, they conducted little in the way of prospecting. This early pre-emptive interest in Botswana's mineral rights by colonial-era entities is an often overlooked part of the country's mining history.
In his 1929 book, "Across the Kalahari Desert", the journalist A.J. Makin described an interview with an independent prospector:

"Diamonds were the obsession of this old prospector. He clasped his glass of Cape brandy in his sunburnt and calloused hand and told me of a mythical diamond field in the Kalahari that would make Kimberly seem an absurd little pothole…There is almost certainly a diamond field somewhere in the midst of that sand and scrub. But if all the stones that are now found in Africa were suddenly placed on the market, they would be as cheap as artificial pearls."

It is likely due to its then-existing surplus supply that De Beers initially showed limited interest in actively prospecting for diamond deposits inside the Protectorate. The company finally began looking for gems in eastern Botswana between 1932 and 1938.

At the time, De Beers' chief Geologist, A.L. du Toit, believed that kimberlite and alluvial diamonds were present in the territory. His belief resulted in De Beers joining Anglo American Corp (AAC) to explore the area. After AAC withdrew from the venture in 1934, Du Toit convinced De Beers to continue its investigations.

The first authenticated diamond discovery in Botswana was made in the same year when four small stones were recovered at Pitsani along the Ramathlabama Spruit. Encouraged, in 1938, De Beers renewed its prospecting rights in the Protectorate. However, further progress was interrupted by the advent of the Second World War.

Discovery of diamondiferous kimberlite

The 1948 establishment of the Geological Survey Office at Lobatse boosted post-war mineral exploration in Botswana. Its first Director, Wayland, suspected that the existence of "blue ground" that could indicate the presence of diamondiferous kimberlite might be hidden beneath the sands of the Kalahari. In this context of this belief, prospectors were encouraged to focus on specific pans. However, the initial results were not encouraging.

By 1955, De Beers reportedly considered abandoning its interest in the region. However, at the urging of a new lead geologist, Dr Gavin Lamont, they opted to continue their search for another decade through 1966. This development coincided with the discovery of three small alluvial diamonds along the Motloutse River. By 1964, De Beers' prospectors began to suspect that the diamonds had come from west of the Motloutse headwaters, leading to a survey of the Letlhakane area in 1966. There, they found abundant quantities of ilmenite and garnet, prime indicators of diamondiferous kimberlite, in the Boteti region.

Nevertheless, progress remained slow. Meanwhile, a kimberlite pipe was found in the Mochudi area in 1966, but it proved non-diamondiferous (only about one in ten kimberlite pipes worldwide contain diamonds). In the same year, further kimberlite traces were uncovered in the Boteti region. As a result, immediately before independence, the Chairman of De Beers, Harry Oppenheimer, was able to discreetly inform Seretse Khama, then serving as Prime Minister in the self-governing transition government that commercially viable deposits of diamondiferous kimberlite had been found in the area.

Public confirmation of the discovery of a sizeable diamondiferous kimberlite pipe at Orapa was finally announced to the public in April of 1967. The find was followed by the location of further significant deposits at Letlhakane and elsewhere in Boteti, triggering a redoubling of exploration across Botswana. Orapa was soon identified as the world's second-largest diamond pipe. De Beers, now a subsidiary of Anglo-American South Africa, financed its exploitation, providing loans to the Government to build a new closed township adjacent to the mine at Orapa.

After that, Botswana's budding partnership with De Beers played a significant role in the diamond industry's development.

State Ownership of Natural Resources

After Botswana gained independence in 1966, the new administration, led by Seretse Khama, made two critical policy choices. First, Botswana declared that all ownership rights to minerals, whether located in districts previously known as 'tribal reserves,' on freehold land, national parks or other state land, were to be vested in the Republic. Second, the Botswana government had the sole authority to decide how these resources would be explored and exploited.

This monumental step of vesting all mineral rights with the state was preceded by negotiations beginning in 1965 with various tribal authorities to transfer their rights to the new central Government, a process completed in July of 1967. As with the country's traditional authorities, the Government in Gaborone was understood to be the steward of the country's natural resources, acting on behalf of its current and future citizenry. This basic principle is consistent with a shared understanding among Botswana's indigenous communities that nature can never be individually owned.
The development was a product of pragmatic appreciation that Botswana was a developing country, dependent on its finite natural resources. It was, therefore, necessary to ensure that they continue to benefit all Batswana rather than just those few who, by chance of birthplace or geography, find themselves sitting on a particular treasure.

The 1967 Mines and Minerals Act legally defined the Government's framework for exercising its authority over the mineral sector. The Act's provisions included the mandate of granting prospecting licences of limited duration and specific commitments. If exploitable minerals were found, a company had to separately apply for a mining lease through a proposed extraction plan. In the process, the previous option of sitting on assets indefinitely was removed. Leases were to have a 25-year maximum duration. To oversee the granting of leases, a Mineral Policy Committee was established to advise the Cabinet, composed of the senior civil servants responsible for minerals and finance, a representative of the Office of the President and the Attorney General.

Formation of Debswana

On June 23, 1969, representatives of De Beers Mining Company and the Government of Botswana signed an agreement to form Debswana as a partnership to mine local diamonds. Initially, the Botswana state held a 15% stake in Debswana. However, in 1974, when De Beers requested to develop the mine at Letlhakane, the Government activated a clause in the previous contract that allowed it to reopen negotiations, resulting in a revised agreement in the following year.

The 1975 agreement reshaped Debswana as a diamond mining company in which the Government and De Beers had an equal 50/50 stake in shareholding, notwithstanding the expectation that De Beers would provide 100 per cent of the capital investment. This was made possible because Botswana's diamonds were already Government assets. Under the agreement, the Government was further expected to receive about three-quarters of Debswana's profits in the form of royalties, taxes, and company dividends. This renegotiation thus marked a significant shift in the balance of power and benefits in Botswana’s diamond mining industry.

Diamond Industry expansion.

Opencast mining began at Orapa in July 1971 at an initial rate of 2.4 million carats annually. Debswana’s total output, including additional mines, steadily increased thereafter, peaking at over 30 million carats in the early 2000s. In 1978, diamonds became the nation's leading export earner, marking a significant milestone in the success of Botswana's diamond industry.

In 1971, the Botswana Diamond Valuing Company (DVC) was formed initially as another partnership between De Beers and the Botswana Government, to sort rough diamonds from Debswana Mines. In 1977, it became a wholly owned subsidiary of Debswana. In 1982, Orapa House was opened in Gaborone to become the centre of DVC operations. As new mines began production, DVC sorting volumes steadily increased until they became the world's most extensive diamond sorting and valuing operation.

Also, in 1972, improved sampling methods culminated by 1976 in the unearthing of what came to be recognised as the world's richest diamond-bearing kimberlite deposits at Jwaneng, a discovery that elevated Botswana to the status of a top global producer of gem diamonds.

In May 1978, De Beers Consolidated Mines Ltd. and the Government of Botswana signed an agreement to establish Jwaneng Mine. By the agreement, the town of Jwaneng was to be developed as an open settlement outside the mine's security zone. This differed from the enclosed company township of Orapa, whose location adjacent to the mines required restricted public access. As a result, the settlement of Jwaneng was able to steadily grown as an independent commercial hub.

New Challenges

In 1981-82, just as the Jwaneng mine was becoming operational, there was a downward trend in the price of diamonds, resulting in De Beers stockpiling its gems to stabilise the market. At the same time, De Beers faced challenges to its hold over the world diamond supply chain. Zaire (now the Democratic Republic of the Congo) temporarily stopped selling its stones through the CSO. This action, however, led to a glut in the market for industrial diamonds, leading to a decline in price from $3 a carat to $1.75. As a result, Zaire renewed its ties to the CSO in 1983.

The opening of a major new mine in Australia, which initially threatened to market its output outside of the CSO further challenged the CSO's hold in global diamond sales. To maintain its position, De Beers, in cooperation with Debswana, on behalf of Botswana, and other national suppliers, cut back production. In the process, De Beers and its global partners accumulated a vast stockpile of gemstones worth over $2 billion.

In addition to production cutback, the De Beers network bought diamonds from outsiders and reduced CSO sales to its sight-holders who in turn supplied the major gem cutting centres of New York, London, Antwerp, Mumbai and Tel Aviv. While causing a steep fall in revenue that negatively impacted Botswana's finances, the contraction strategy ensured that the Australian Mine and others agreed to channel their diamond sales through the CSO.

The 1981-83 disturbance in the global diamond market ultimately benefitted Botswana. In July 1987, De Beers purchased a large stockpile of diamonds from Debswana. In return, Botswana received a combination of cash and stocks equal to 5.2 per cent of the outstanding De Beers' shares. Along with this equity stake, the Government of Botswana acquired the ability to name two members of the diamond corporation's board of directors.

When De Beers became a publicly listed company in 2001, Botswana's share in the company rose to 15 per cent, with 45 per cent owned by the Anglo-American Corporation and 40 per cent by the Oppenheimer family. The family would later sell their share to Anglo American.

1996 Agreement

In August 1996, an agreement was signed by representatives of the Botswana Government, De Beers Centenary AG, and Debswana Diamond Company to double production at the Orapa Mine. This expansion increased Orapa Mine's annual output from 6 million carats to 12 million from the No. 1 and No. 2 plants in 2000, raising Debswana's total production to about 26 million carats yearly. The Orapa No. 2 plant had been initiated as a critical component of the new agreement. Besides what came to be known as the “Orapa 2000” project, the agreement further provided for the “Aquarium” project at Jwaneng, which improved the overall productivity of Debswana’s operations through a wholly automated recovery plant and a fully integrated sorting house. This project brought to an end the hand sorting of diamonds. Instead, high-tech x-ray scanners used at this facility ensured quick and accurate diamond recovery that maximised profit.

Another milestone was achieved in 2002 when the Damtshaa Mine began operating as Debswana’s fourth mining operation. Damtshaa comprises four small diamond pipes discovered between 1967 and 1972 in an area 20 kilometres east of Orapa. Coming on stream in October 2003, Damtshaa was managed, along with the Letlhakane Mine, from Orapa. Damtshaa was forecasted to yield 5 million carats over a 31-year projected life span. However, the mine is currently mothballed.

Debswana meets the HIV Challenge.

In May 2001, Debswana became the first company in the world to provide free antiretroviral treatment to its employees. The 100 per cent subsidy covers employees living with HIV/AIDS and their spouses. Employees' children up to the age of 21 who were infected with HIV received treatment through the Mine Hospitals in Orapa and Jwaneng.

To Debswana, the challenge of HIV/AIDS became an integral part of the business strategy. The company's commitment to the fight against HIV and AIDS is based on an enlightened desire to minimise the impact of HIV/AIDS on employees, their families, and the company through the prevention of new infections, care and support of those infected with HIV and resulting containment of costs.

Kimberly Process and Diamond for Development

In recent decades, there has been international concern about the role of diamonds in fuelling civil conflicts in some jurisdictions. To meet this concern, Debswana and the Government of Botswana have played a leading role in establishing and promoting the Kimberley Process (K.P.), which began in 2000 as an international forum dedicated to the global elimination of conflict diamonds. By their definition, conflict diamonds are rough diamonds used by insurrectionists and outlaw regimes to finance wars.

With the sanction of the United Nations, the Kimberly Process brought together governments, industry, and civil society to ensure compliance with the Kimberly Process Certification Scheme as a global mechanism to prevent the trade of conflict diamonds. Launched in 2003, the scheme mandates that trade in rough diamonds can only be conducted between industry members in participant countries. International shipments of rough diamonds are monitored when they enter the participant country to ensure an official K.P. certificate accompanies them. Within five years of its launch, the scheme reduced conflict diamonds from more than 4 per cent of rough goods traded to less than 0.2 per cent.

In support of the Kimberly Process, the Government of Botswana, under then President Festus Mogae, joined hands with De Beers to promote an international Diamonds for Development public relations campaign that successfully highlighted the contribution being made by legitimate diamond sales to the social welfare of Botswana and other jurisdictions.

2006 and 2011 Agreements

By 2006, Debswana generated an annual profit of about P12 billion, most of which was remitted to the Botswana government through dividends, royalties, and taxes. Overall, diamond revenue contributed 50 per cent of public revenues, 33 per cent of the country’s GDP, and 70 per cent of foreign exchange earnings. Debswana's Corporate Social Investment budget further benefited local communities.

In May of 2006, De Beers and Botswana celebrated a new agreement to continue their partnership through Debswana. The deal included the renewal of the mining license for the Jwaneng Mine until 2029 and extended mining licenses for the Orapa, Letlhakane, and Damtshaa mines.

It was also announced that De Beers and Botswana would establish the Diamond Trading Company Botswana (DTCB) as another 50-50 partnership, which would sort and value all of Debswana's diamond production in the country. The agreement further included incentives for the domestic cutting and polishing of locally mined rough diamonds.

In September 2011, the Government of Botswana and De Beers Group announced that, as part of a new 10-year contract for the sorting, valuing, and sales of Debswana's diamond production, De Beers would transfer its London-based rough diamond sales activity to Botswana by 2013, transforming Gaborone into one of the world's leading diamond trading and manufacturing hubs.

The 2011 agreement also provided an independent sales outlet for the Botswana Government. This resulted in the establishment of the parastatal Okavango Diamond Company (ODC), which began operating in Gaborone in 2012. ODC kicked off its operations with a 12 per cent allocation from Debswana production, an allocation that rose to 15 per cent in 2016 and 25 per cent in 2020.

Further Progress

The launch of the ODC further opened the door for other diamond-mining partners outside of De Beers. Over the past two decades, advanced magnetic and geophysical technology has dramatically expanded Botswana's diamond industry, allowing for the assessment of the most promising diamond kimberlite pipes and the exploration of others. This technological advancement has led to the entry of smaller mining ventures and the opening of new mines. Notable among these is the Karowe mine operated by Lucara Diamond, which since 2012 has been a source of large high value diamonds, including the discovery of the world’s second largest gem diamond in 2024.

Since 2008, Botswana's diamond production and a portion of the regional output have been cut and polished at the DTCB. Additionally, De Beers diamond sales were relocated from the venerable CSO in London to the DTCB in Gaborone. This has effectively given Botswana access to the polishing and marketing sectors.

Other key developments include the launch of the Jwaneng Mine's Cut 8 Project in December 2010 and noteworthy discoveries such as the 41.11 carats of Okavango Blue Diamond at the Orapa mine in 2019 and the largest gem-quality diamond in Botswana's history, a 1098-carat diamond from the Jwaneng Mine in 2021.

In 2023, the Government of Botswana and De Beers announced agreement in principle on a new 10-year Sales Agreement for Debswana's rough diamond production through 2033 and a 25-year extension of the Debswana mining licences through 2054.

At the core of the agreement was an industry commitment to further expand Botswana's share of the diamond value chain by increasing the amount of Debswana diamonds sold through the Okavango Diamond Company from 30 per cent to 50 per cent over the duration of the agreement. From the start of the new contract period, ODC will receive 30 per cent of Debswana's production. The agreement also provides for continued capital investment in Debswana to ensure it remains among the world's leading diamond producers. In addition, a multi-billion Pula Diamonds for Development Fund has been established. De Beers has further pledged to invest 10 billion BWP in its Botswana operations over the next ten years.

Conclusion

For the immediate future, Botswana will continue to depend on diamonds for economic growth, notwithstanding ongoing efforts to diversify the economy away from mineral dependency. In 2022, diamond mining accounted for approximately 20 per cent of Botswana's gross domestic product (GDP), while diamond cutting, polishing, and trading made up about 5 per cent.

Botswana continues to benefit from the ownership structure of Debswana, which currently results in about 80 per cent of the company's income going to government coffers. In this respect, Debswana sells its rough stones to DTC, which sorts the goods for its two clients: De Beers Global Sight-holder Sales and ODC, which then sells to their respective customers. In the process, the Government of Botswana gains taxes, royalties and dividends from those various transactions, entities, and sales channels.

The company has been operating in Botswana for 55 years and, in the last decade, has made Gaborone its central distribution hub after De Beers moved its aggregation and sales operations from London to Gaborone. This led the mining company to earmark more rough diamonds for local beneficiation. While Botswana's diamond industry will undoubtedly continue to evolve to meet changing circumstances, Debswana is expected to remain at the centre of Botswana's diamond development journey.

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